

# Human Risk

“A practitioner’s view of managing Conduct & Ethics”

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- Head of Behavioural Science, **UBS**
- Head of Compliance & Operational Risk **UBS Asset Management** and **UBS EMEA**
- Head of Department, International Banking Supervision, **Financial Services Authority & Prudential Regulation Authority (PRA)**
- **Chief Operating Officer, PRA**
- Early career at **Arthur Andersen & Deutsche Bank**

# HumanRisk

“The risk of people doing things they shouldn’t, or not doing things they should”



“The riskiest part of our business nowadays is operational risks. We can have hours of discussion on credit or market risks. But the one thing that really hurt in the last 10 years of our industry is op risks, not credit or market risks.

If you do something wrong as a bank, or you have people doing bad things within the bank, it costs you much more than any credit risk or market position”







Kweku Adoboli, photographed this month in London. Facing page an extract from a letter he wrote to Lindsay Fortado in June 2014

the penny finally dropped that if I did not go to trial I would never be able to help anyone else avoid the beating that I got. I fought the trial not because I thought I would win but because no one in finance ever realises how close they are to the imaginary, transitory red line until they cross it and get smashed in the face by a million camera lenses.

Exclusive interview

# A ROGUE TRADER'S TALE

## KWEKU ADOBOLI

During his nearly four years in prison, the man who lost UBS \$2.3bn began writing to the FT's Lindsay Fortado. Now out, and facing deportation, he tells her that he's sorry - but that the pressures on traders remain. Portraits by Adama Jalloh



# Regulatory Dynamics



- Missed (much of) the crisis 🖱️ “Never Again”
- Conduct in good times, Prudential in bad times
- Low level of mutual trust
- Retrospective regulation
- Primacy of auditability 🖱️ Codification

# When codifying C&E goes wrong..



12. März 2020

MANNHEIMER MORGEN

morgenweb

THEMEN CORONAVIRUS SV WALDHOF THEMENWELTEN DOSSIERS

Suche

KULTUR

STADT VERORDNET LIMIT WEGEN CORONA

## Maximal 999 Besucher beim Akademiekonzert

09. März 2020 | Autor: [Stefan M. Dettlinger \(dms\)](#)

Die knapp 1000 Besucher im Mozartsaal des Mannheimer Rosengartens kurz vor Konzertbeginn.

© Dms

The screenshot shows a news article from 'MANNHEIMER MORGEN' dated March 12, 2020. The article is in the 'KULTUR' section and is titled 'Maximal 999 Besucher beim Akademiekonzert'. It reports on a concert in the Mozartsaal of the Mannheimer Rosengarten, where a limit of 999 visitors was enforced due to the COVID-19 pandemic. The article includes a photograph of the audience seated in the concert hall. The page layout includes a navigation bar with categories like 'THEMEN', 'CORONAVIRUS', and 'SV WALDHOF', a search bar, and social media sharing icons on the left side.

# Why is Conduct & Ethics (C&E) so hard?



- Extrinsic drivers
- Shifting Norms - societal & regulatory
- Seniority may not equate to expertise
- Learned behaviours are hard to shift
- Business Models
- Incentives - esp. Compensation models





# “Vertrauen ist gut, Kontrolle ist besser”



- ☑ Low Visibility
- ☑ Indicators tend to lag
- ☑ Hard to pre-emptively control
- ☑ Easier to measure the bad, than the good
- ☑ Measure what you can, not what you should
- ☑ “Zero tolerance”
- ☑ Dashboard Delusion

# Marketing Materials



- Marketing materials pose a theoretical risk
- Traditional solution 🖱️ Pre-Approval
- Errors of Commission vs. Errors of Omission
- Key Conduct Risk is non-disclosure
- “What you see is all there is”
- Free insurance policy



# A new regulatory paradigm

Opinion FTfm [+ Add to myFT](#)

## Beware the regulator cracking down on corporate hospitality

There is also the bribery angle to consider, warns Jonathan Pickworth



© Reuters

Jonathan Pickworth MAY 22 2016

Are you thinking of taking a client to the cricket, Formula One or a golf day in the near future?

Though many in the asset management industry may view these events as harmless client hospitality, if you want to avoid accusations of excessive behaviour and the wrath of regulators, it might be best to think again.

The regulator instead expects companies to “consider and assess all aspects of the benefit are designed to enhance the quality of the service to the client”



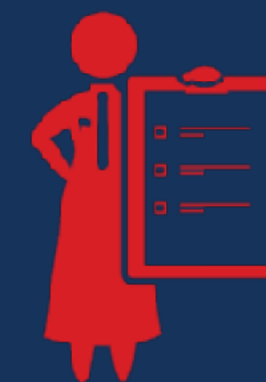
# Unintended consequences?



Are you ready for the Senior Managers and Certification Regime that comes into effect on 9 December 2019?

Use the FCA guidance available and start preparing now

Find out more at [fca.org.uk/smcr](https://www.fca.org.uk/smcr)





# Evolution of motivation



“Compliance”

Marketing

Economics

BeSci

RULES &  
REGULATIONS

AWARENESS  
CAMPAIGN

PENALTY OR  
REWARD

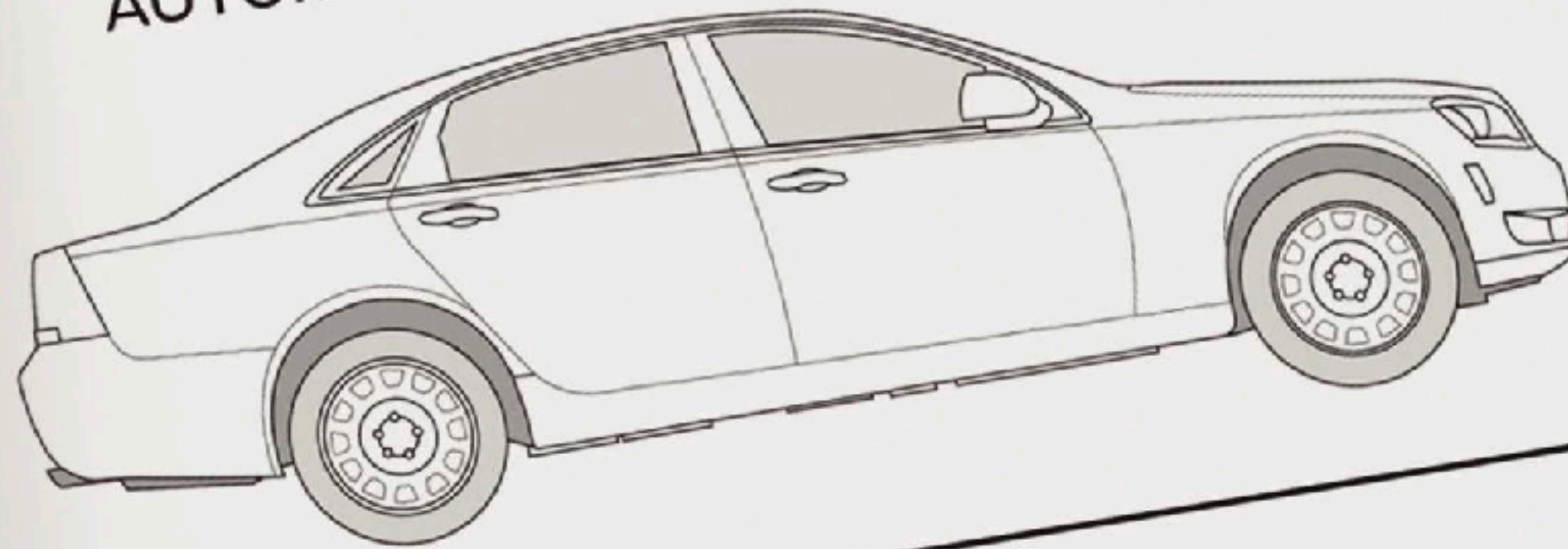
BEHAVIOURAL  
DESIGN

**EXTRINSIC MOTIVATORS**

**INTRINSIC**

**SECTION 1: GETTING STARTED**

**AUTOMOBILE (YOUR CAR)**



**DRIVER (YOU)**



**VEHICLE OWNER'S MANUAL**



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